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USER BOOK TITLE:	The complete guide to market breadth indicators : how to analyze and evaluate market direction and strength
CHAPTER TITLE:	Chapter 3 - Breadth Indicators
BOOK AUTHOR:	Morris, Gregory L
EDITION:	
VOLUME:	
PUBLISHER:	
YEAR:	2006
PAGES:	19-30
ISBN:	9780071444439
LCCN:	HG4529 .M675 2006
OCLC #:	58042908

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Journal Title: The complete guide to market breadth indicators

Article Author: Morris, Gregory L

Article Title: Chapter 3 - Breadth Indicators

Volume: Issue:

Month/Year: 2006 Pages: 19-30

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3

Breadth Indicators

This is the first chapter that will highlight the process of presenting details on all known indicators of market breadth. It will attempt to identify the creator of the indicator or methodology, the source of the information, and as much research on the indicator as possible. The formula will be disclosed in most cases, along with a number of different charts to assist you in understanding and interpreting these indicators. Finally, the author gives an opinion on the indicator and its interpretation.

Individual Breadth Indicator Format

All indicators in this book are presented using the format below. If you see that an item below is not included with the coverage of an indicator, it is because there was no information available for that particular item.

Also Known As: Many times an indicator is known by multiple names. A good example of this is the Arms Index, which is also known as TRIN and MKDS. This will also be where you can get information about very similar indicators located elsewhere in this book.

Author/Creator: Most indicators were created by someone. I have attempted to give credit when the information is available.

Data Components Required: These are the components of breadth data that are required to calculate the indicator.

Description: This is a brief description of the indicator, which will also try to clear up any problems with any interpretation of the math.

Interpretation: Here is the generally accepted industry interpretation of the indicator, using value levels, zones, smoothing values, etc. A number of different analysts' various techniques are also mentioned here.

Chart: Here is a chart that best displays the indicator. Enough data is used in the chart so that only "hand-picked" areas are avoided. There are some indicators or breadth-based systems that were beyond the capabilities for creating a chart, and they will be so noted. Many times there will be a number of charts showing different interpretations or uses of the indicator from various analysts.

Author Comments: Here the author tries to offer a personal interpretation, opinion, and use of the indicator. Because the author does not use all of them, he still offers this interpretation, including some modifications and ideas for further analysis. In some instances, he will also offer a modification that he believes will enhance the indicator. A few indicators were designed for buy signals or sell signals, but not both. On these he attempted to create the complementary indicator.

Formula: This is intended as an algebraic formula for the indicator. There are some math symbols that will assist you:

Σ means the formula after it is accumulated or summed.

√ means the square root of the formula.

There are a number of formulae that are just too complex for this section. If I felt that was the case, I attempted to write a descriptive narrative on the formula. And in a few instances, the indicator was purely designed to be a visual display, and no formulae would assist your understanding.

References: This is a bibliography where you can find additional information on the indicator and/or its creator. This method was preferred over a formal bibliography and at times, there are notes about a particular book or magazine article included here. Displaying them here is a much more useful location for references, in my opinion.

Chapter Format

Because of the large number of breadth indicators, the chapters on the breadth indicators are divided into different categories based upon the mathematical relationship between the breadth pairs. An indicator pair relates to the advances and declines, the new highs and new lows, and the up volume and down volume. Pairs can be mathematically related in a number of ways. The difference between the two and the division of the two are the two primary ways these pairs have been used to create breadth indicators.

Indicator Categories

A − D	AD Difference
A / D	AD Ratio
AD	AD Miscellaneous
H − L	HL Difference
H / L	HL Ratio
HL	HL Miscellaneous
UV DV	Volume
A D H L UV DV	Composite

When necessary, the numerator controls in which category the indicator will be. If A − D is in the numerator, it is in the AD Difference category. A number of indicators could be in either the difference or the ratio category. For example, the ratio used by Sherman McClellan, Tom McClellan

and Carl Swenlin has $(A - D)$ in the numerator and $(A + D)$ in the denominator $(A - D) / (A + D)$. The numerator will usually control the direction of an indicator, so that is what was used to determine the category the indicator will be in.

General Advance and Decline Information

Advancing issues (advances) are those whose price increased from the previous closing price. Declining issues (declines) are those whose price decreased from the previous closing price. A bullish market will take many, if not most, issues with it. As the market rises, the number of advances will remain fairly high with the usual oscillations as traders move in and out of the market. Most often the advancing issues will start to decline in number well before the price action reflects a market starting to peak. This is because fewer and fewer issues are continuing to rise. The prices continue to rise because most market averages are capitalization weighted, and the generals continue to lead the charge. It is when the declines begin to rise that the topping formation is reaching its final stages.

If you are analyzing data over a long term (greater than 1 year), it is highly recommended to adjust any raw forms of the data by using a ratio of it to a more universal component. For example, viewing the advancing issues as a percentage of total issues is better than just looking at advancing issues. The same goes for the declining issues and the unchanged issues. Chart 3–1 shows the raw advance and decline data. Chart 3–2 shows the advance and decline data as a percentage of the total issues. On Chart 3–2 is also a nearly horizontal line representing the least squares fit for all the data. For the advancing issues as a percentage of total issues, its value changed by less than 13 percent over the 40 years shown in the chart. For the declines, it changed less than 1.3 percent. The greater increase in the advances is probably because of the overall upward move of the market in the last 40 years.

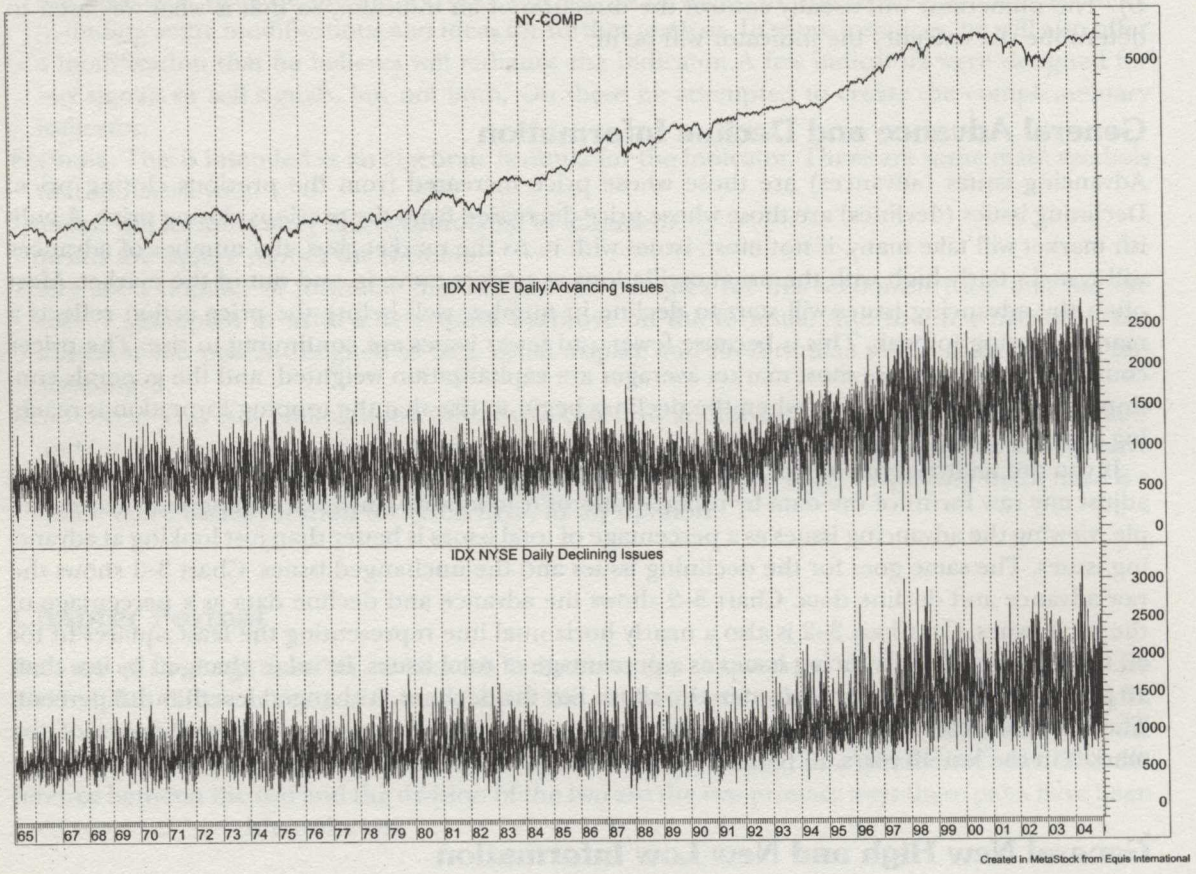
General New High and New Low Information

The new highs and the new lows are not related like the advances and declines. An advance or decline is based on a single day's price change. A new high or new low is based on the previous year's price changes.

As previously stated, a bullish market will take many issues with it. As the market continues to rise, the number of new highs should continue to increase. Many times the new highs will surge at the beginning of a bull market, then drop off, only to return toward the end of a long bullish advance. This is because stocks that have broken out of congestion areas and are rising above their resistance levels have unlimited upward potential on a technical basis. As the market's upward move starts to falter, the first thing that happens is the number of new highs stops increasing. Then the number of new highs will begin to decline. As the topping process matures, the number of new lows will slowly begin to increase, but will not do so dramatically until the market really begins to fall.

If the number of new highs begins to drop during a market advance, this is quite bearish. In a strong upward market move, even if the new highs do not continue to increase, it is a bearish

Chart 3–1 Advances and Declines.



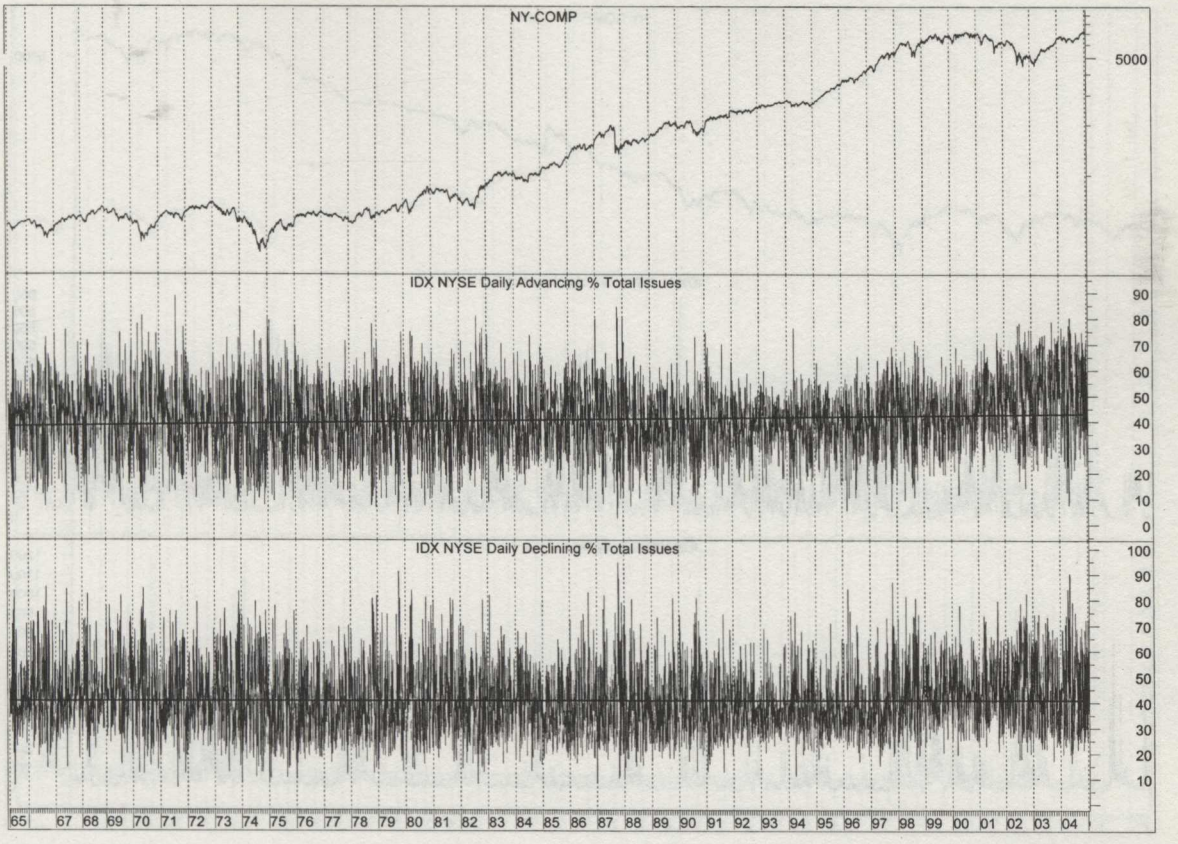
warning. They do not have to drop in number; just the fact that they are no longer increasing is not good for the upward movement.

Charts 3–3 and 3–4 use the new highs and new lows. Chart 3–3 is the raw numbers and Chart 3–4 is the new highs and new lows as a percentage of total issues. The dark line through the plots on Chart 3–4 is the linear least squares fit of the data. The increase in the regression fit for the new highs was a little over 13 percent, similar to the advances. The regression fit through the new lows actually declined over the 40-year period.

General Up Volume and Down Volume Information

Up Volume refers to the volume for the day of the advancing issues. Down volume is that volume for the declining issues. Stocks can still advance, and the amount of volume will be the first

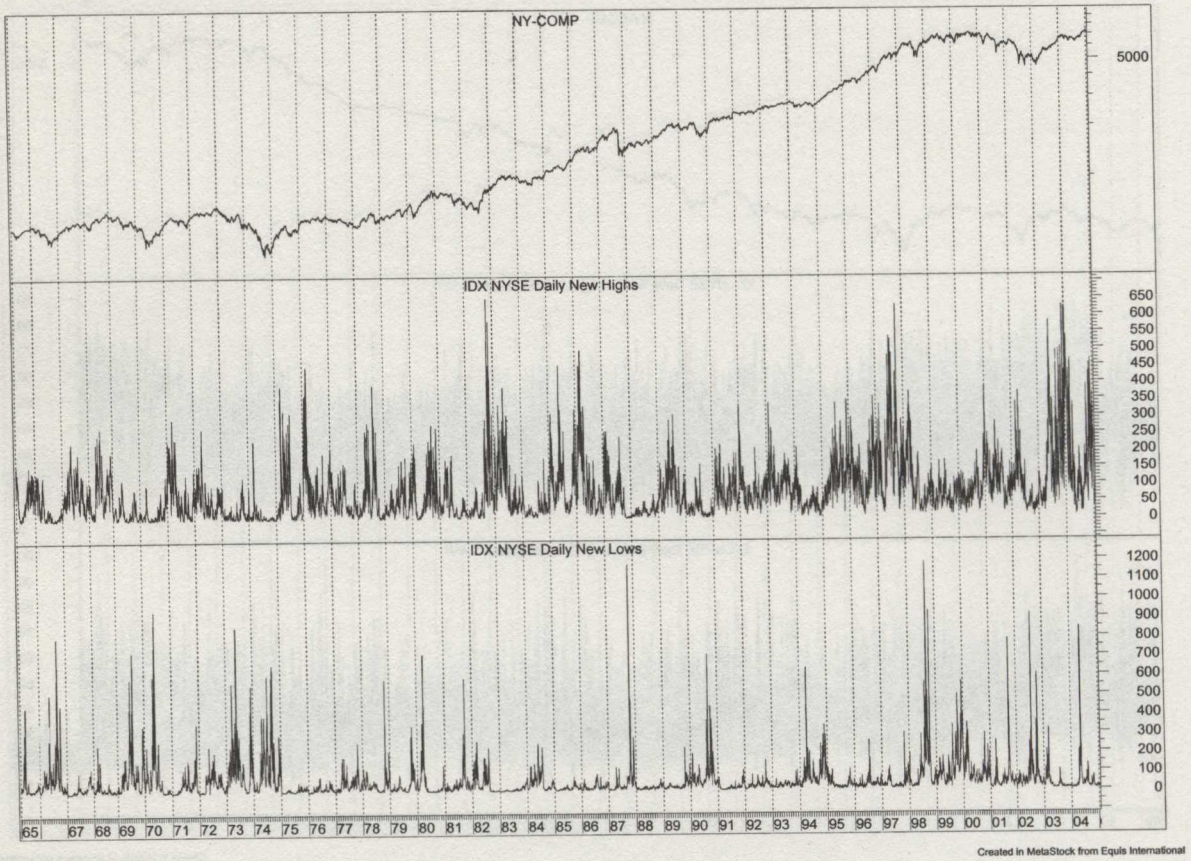
Chart 3–2 Advances and Declines Adjusted for Total Issues.



indication of a weakening advance. As an up move begins to falter, the up volume will be one of the first hints that all is not well. It is generally not the case that the declining volume will lead the declining issues when the market is in a maturing top formation. Markets can drop merely from a lack of up volume; they do not need a large increase in down volume. As a market declines, the down volume will come back into play and can be used to help identify the beginning of a bottom. The down volume will quickly dry up and the up volume will rise quickly at a market bottom.

Charts 3–5, 3–5b, and 3–6 use the up volume and down volume. Chart 3–5 is the raw numbers, and you can see that over the last 40 years, the giant increase in volume has rendered this almost useless. Chart 3–5b shows the exact same data, but the scaling for the up and down volume has been changed to semi-log scaling, which greatly enhances the chart. Chart 3–6 is the up and down volume as a percentage of total volume. In Chart 3–6 the regression line is white in hopes that it will be more easily seen. As expected, the up volume as a percentage of total volume increased

Chart 3-3 New Highs and New Lows.



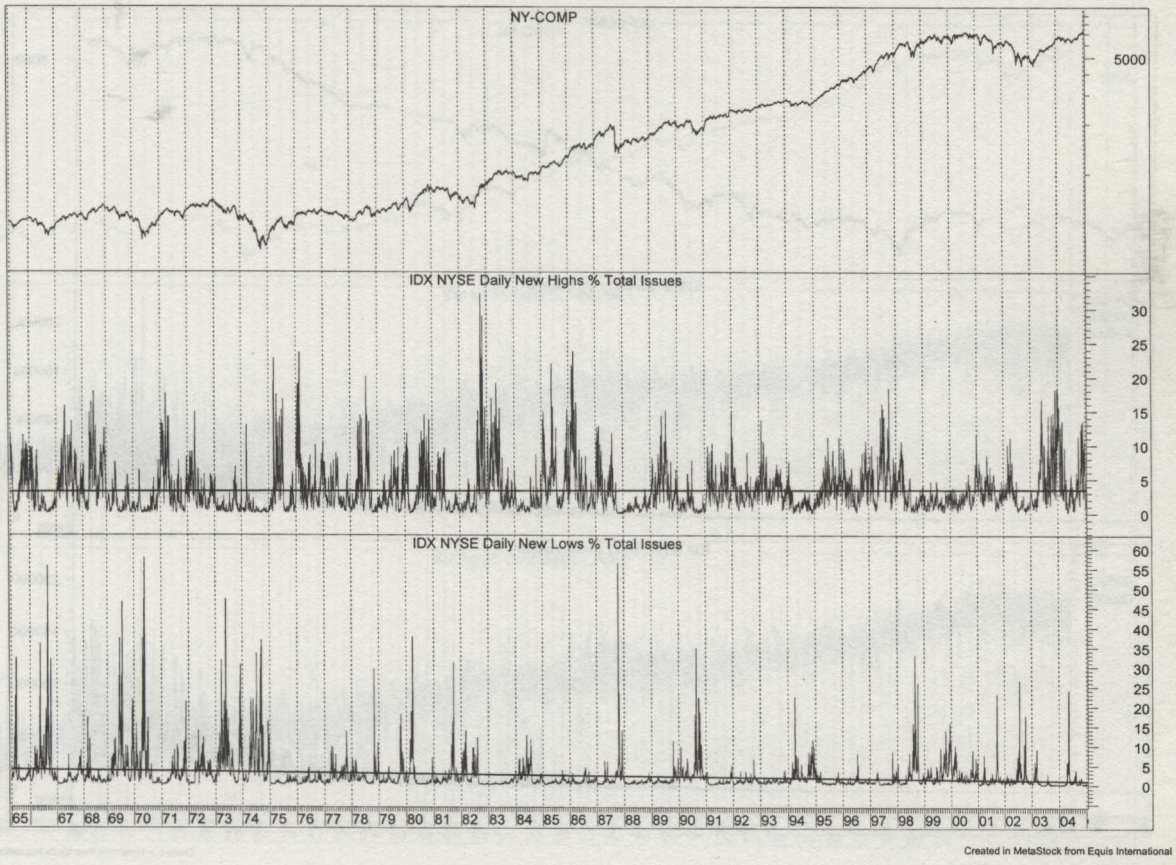
(based on the least squares fit) by about 1.5 percent. Interestingly, but not surprisingly, the down volume also increased over this 40-year period.

Complete List of Breadth Indicators

Chapter 4—Advance Decline Difference

Advances−Declines
Advance Decline Overbought Oversold
Plurality Index
Advance Decline—Fugler
Advance Decline Line
Advance Decline Line—1%
Advance Decline Line—Eakle
Advance Decline Line—Normalized
Advance Decline Line—Bolton
Advance Decline Line—Adjusted Total Issues
Big Movers Only
Advance Decline Line Oscillator

Chart 3-4 New Highs and New Lows Adjusted for Total Issues.

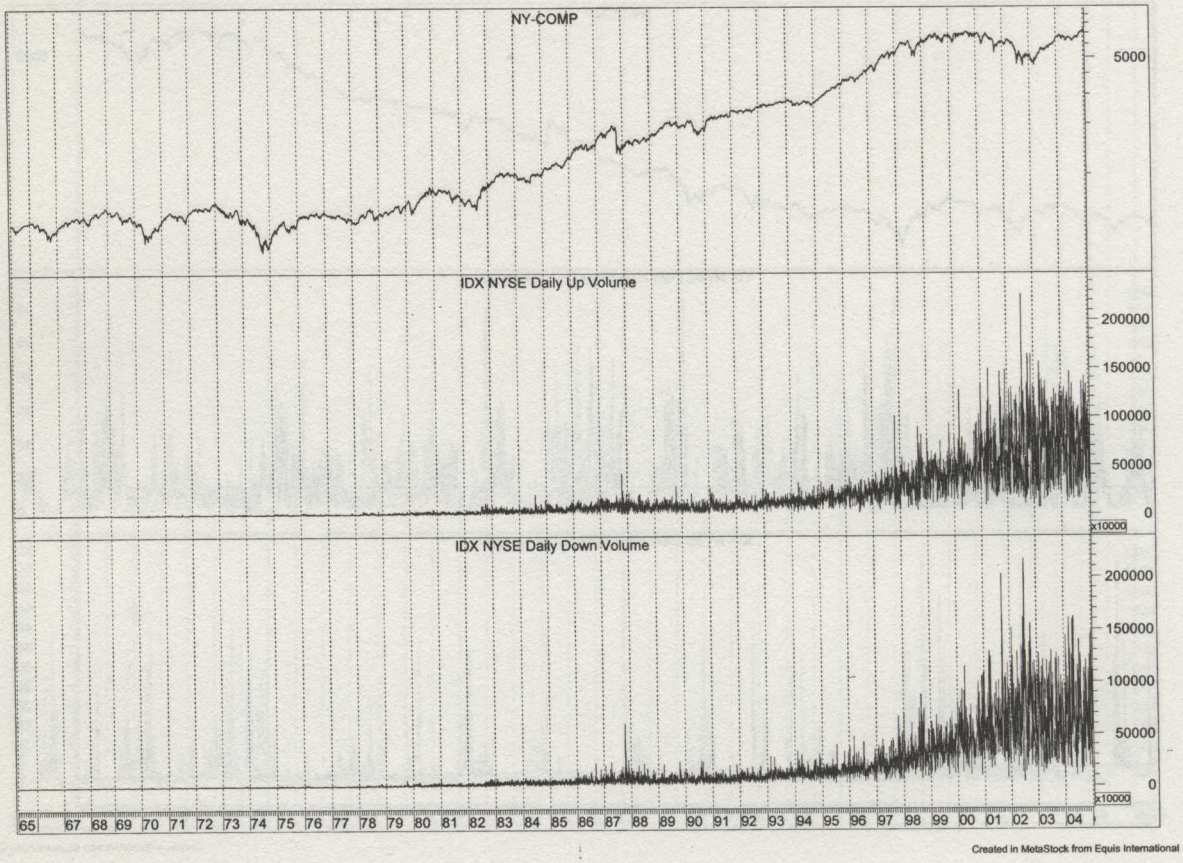


Absolute Breadth Index
Absolute Breadth Index—Adjusted
Advance Decline Power
Coppock Breadth Indicator
Haurlan Index
McClellan Oscillator
McClellan Summation Index
Merriman Breadth Model
Swenlin IT Breadth Momentum Oscillator
Swenlin Trading Oscillator—Breadth
Zahorchak Method

Chapter 5—Advance Decline Ratio

Advance / Decline Ratio
Breadth Thrust
Breadth Thrust Continuation
Duarte Market Thrust Indicator
Eliades Sign of the Bear
Hughes Breadth Momentum Oscillator
Panic Thrust
STIX—Short-Term Trading Index

Chart 3–5 Up Volume and Down Volume.



Chapter 6—Advance Decline Miscellaneous

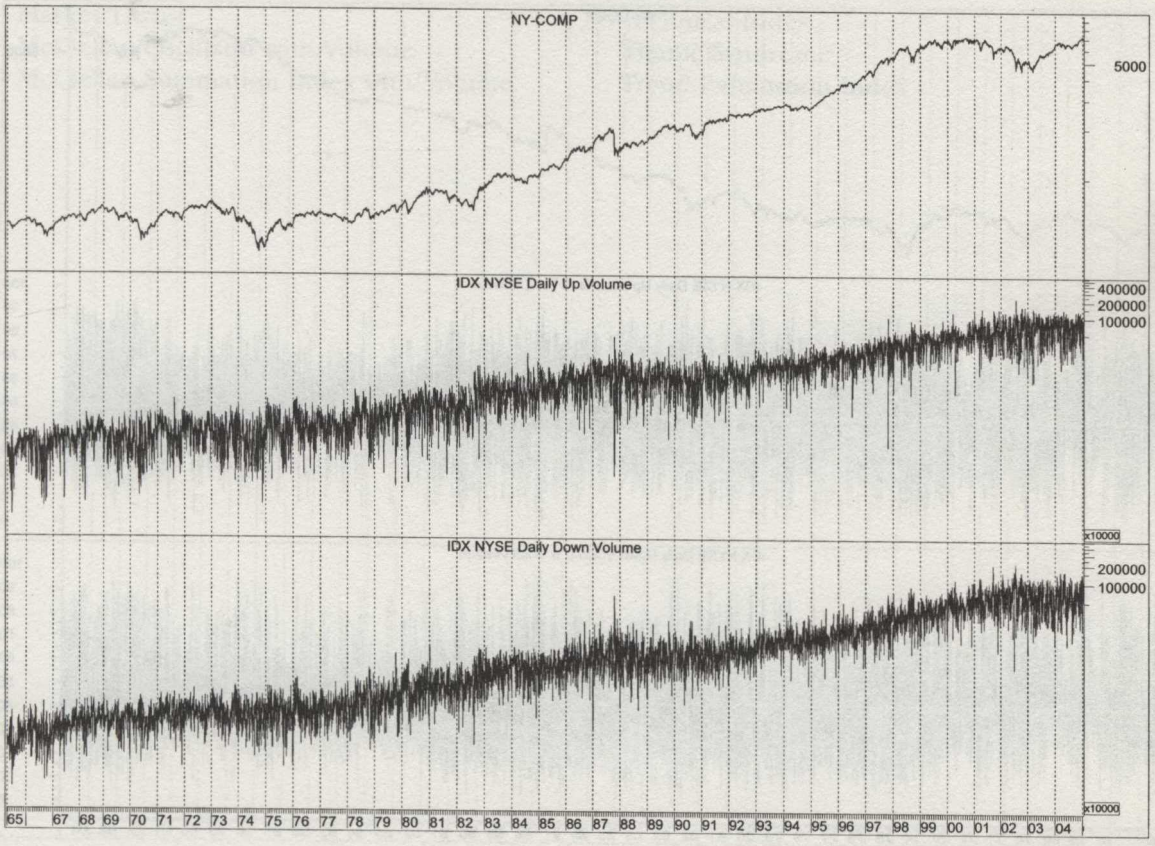
Advances / Issues Traded
Advance Decline Divergence Oscillator
Advance Decline Diffusion Index
Breadth Climax
Declining Issues TRIX
Disparity Index
Dynamic Synthesis
Unchanged Issues
Velocity Index

Chapter 7—New Highs, New Lows Indicators

High Low Difference

New Highs−New Lows
New High New Low Line
New Highs and New Lows Oscillator
New Highs and New Lows Derivations

Chart 3-5b Up Volume and Down Volume Plotted Using Semilog Scaling.



High Low Ratio

New Highs / New Lows Ratio

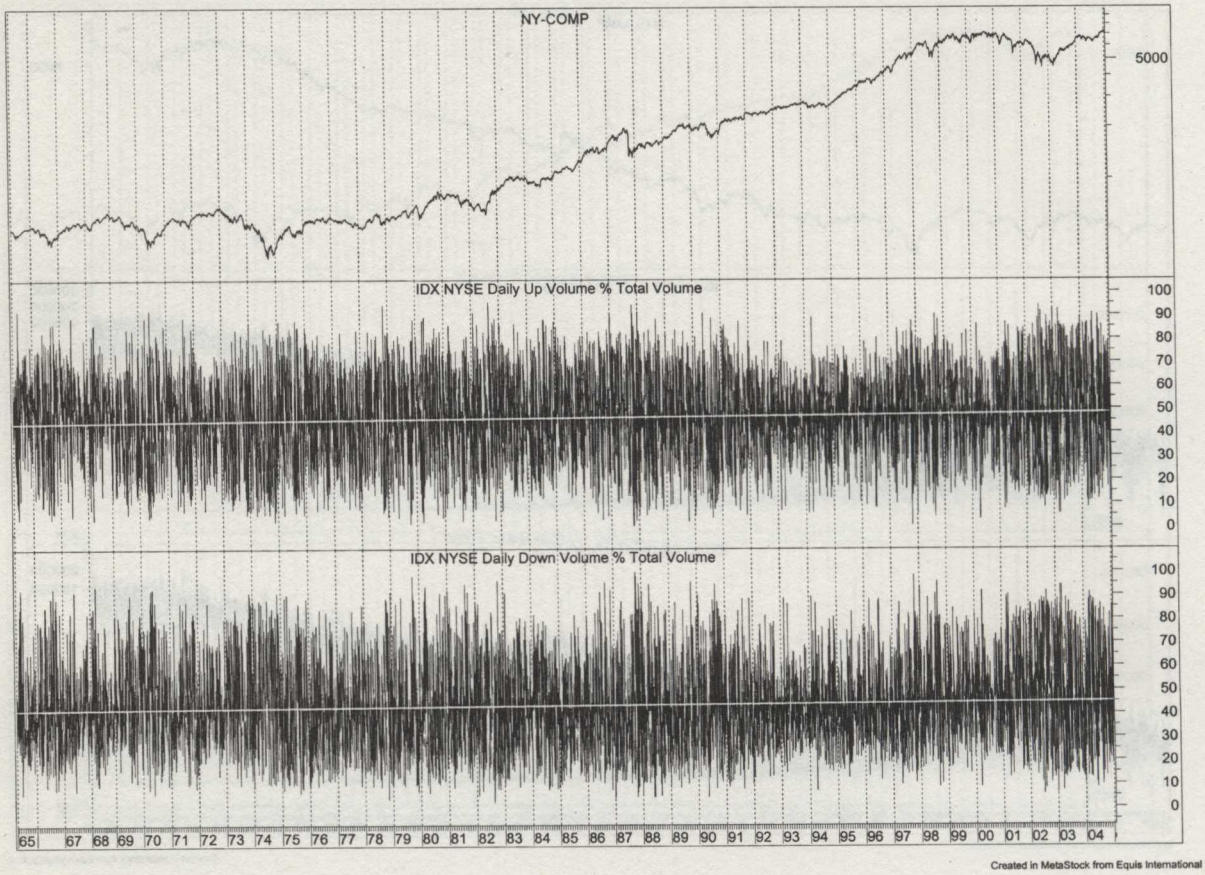
High Low Miscellaneous

New Highs and New Lows
New Highs % Total Issues
New Lows % Total Issues
High Low Logic Index
High Low Validation

Chapter 8—Up Volume, Down Volume Indicators

Up Volume
Down Volume
Changed Volume
Up and Down Volume

Chart 3-6 Up Volume and Down Volume Adjusted for Total Volume.



McClellan Oscillator—Volume
McClellan Summation Index—Volume
Merriman's Volume Model
Swenlin IT Volume Momentum Oscillator
Swenlin Trading Oscillator—Volume
Up Volume Down Volume Line
Cumulative Volume Ratio
Up Down On Balance Volume (OBV)
Volume Percentage Ratio
Upside−Downside Volume
Upside / Downside Volume Ratio
Zweig Up Volume Indicator

Chapter 9—Composite Indicators

Arms Index
Arms Open Index
Advance Decline New High New Low
Bretz TRIN-5
Cash Flow Index
Composite Tape Index
Dysart Positive Negative Volume
Eliades New TRIN

Haller Theory
Hindenburg Omen
Market Thrust
McClellan Oscillator with Volume
McClellan Summation Index with Volume
Meyers Systems
Moving Balance Indicator
Technical Index
Titanic Syndrome
Trend Exhaustion Index